

The Effect of Thin Capitalization, Transfer Pricing, and Executive Character on Tax Avoidance with Profitability as a Moderating Variable

Wiliam Krishna^{1*}, Fitriani Mansur², Nela Safelia³
Fakultas Ekonomi dan Bisnis, Universitas Jambi

Corresponding Author: Wiliam Krishna krishnawiliam15@gmail.com

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ABSTRACT

This study aims to analyze the effect of thin capitalization, transfer pricing, and executive character on tax avoidance with profitability as a moderating variable. This research utilizes secondary data sourced from the Indonesia Stock Exchange for the years 2021 to 2023. A purposive sampling method was employed to select a total of 31 companies. Data was gathered through the review of documents and literature, with analysis performed using SPSS software version 26. The results of this study prove that: (1) thin capitalization, (2) transfer pricing, (3) and executive character affect tax avoidance. While the profitability variable is not able to moderate (4) thin capitalization and (5) transfer pricing on tax avoidance and the profitability variable is not able to moderate (6) executive character on tax avoidance.

INTRODUCTION

Taxes represent a significant source of income for the Indonesian government, serving a crucial function in the advancement of infrastructure and public services. Tax revenue is used to build physical facilities such as roads, bridges, and public transportation, as well as support the education, health, and security sectors. In addition, taxes are also a source of funding for social welfare programs, such as assistance for the underprivileged, subsidizing basic needs, and reducing social inequality. At the macro level, taxes also play a role in maintaining economic stability through good fiscal management to support sustainable economic growth (Purwitasari, A et al, 2024).

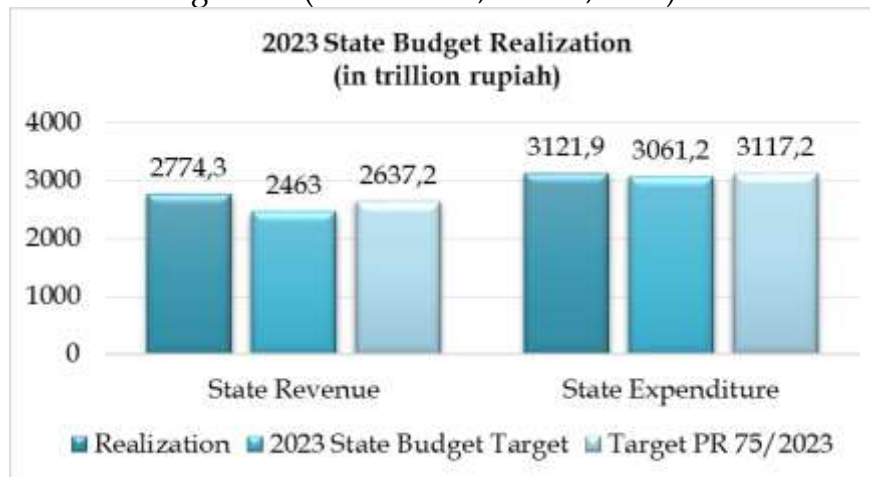


Figure.1 2023 State Budget Realization

Source: Kemenkeu.go.id, 2023.

In 2023, the realization of the State Budget (APBN) reached Rp2,774.3 trillion or exceeded the target set in the APBN Law and Perpres, demonstrating the credibility of state financial management amid the global economic recovery. However, tax reporting compliance remains a challenge. Of the target of 83% of taxpayers reporting their annual tax returns (SPT), only 67.6% was achieved, i.e. 12.8 million taxpayers (Anggara, S et al, 2023).

This low compliance opens a gap for the practice of tax avoidance, which is often done legally but harms the state. This practice is commonly employed by businesses, particularly within the mining industry, that exploit legal gaps to reduce their tax liabilities. This phenomenon causes huge losses for Indonesia, including the loss of potential revenue of IDR 39.7 trillion from multinational companies that utilize tax haven countries (Tax Justice Network, 2024).

Putra, W (2022), companies that are indicated to do tax avoidance usually experience a CETR value below 25%. Case studies show that several mining sector companies in Indonesia have a Cash Effective Tax Rate (CETR) below 25%, such as PT Adaro Energy Tbk (19%), PT Golden Energy Mines Tbk (17%), and others, which indicates tax avoidance practices. This is often done through strategies such as thin capitalization, transfer pricing, and the use of depreciation policies to reduce taxable profits.



Figure 2. Mining Company CETR 2023

Source: idx.co.id, 2023.

The character of company executives also plays an important role in the level of tax avoidance. Executives with risk taker characters tend to be more active in tax avoidance than those who are risk averse.

Research related to tax avoidance in the mining sector shows the influence of thin capitalization, transfer pricing, executive character, and profitability on this practice. However, further research is needed to bridge the different results from previous studies. Therefore, this latest study takes the title: The Effect of Thin Capitalization, Transfer Pricing, and Executive Character on Tax Avoidance with Profitability as a Moderating Variable (Empirical Study on Mining Companies Listed on the Indonesia Stock Exchange in 2021-2023).

LITERATURE REVIEW

Agency Theory

Agency theory discusses the differences in interests between company owners (principal) and company managers (agent). Managers often take advantage of opportunities to get greater compensation, one of which is through strategies such as depreciation of fixed assets to reduce the tax burden, so that company performance increases and their goals are achieved (Jensen & Meckling, 2019). This theory also emphasizes that the company is a place of various contracts that can trigger conflicts of interest, especially due to differences in views between managers and shareholders in decision making (Maulina & Triyono, 2023).

Tax Avoidance

Tax avoidance refers to the actions taken by taxpayers to minimize or entirely eliminate their tax liabilities in a manner that complies with existing tax laws and regulations (Finrely, C et al, 2023). The fiscal affairs committee of the Organization of Economic Corporation Development (OECD) explains that there are at least three characteristics of tax avoidance, including:

1. The existence of an artificial element where the arrangement is made as if it exists when it actually does not and this is done because it does not consider the tax factor.

2. Utilizing legal loopholes in the law or applying legal provisions for certain purposes that are actually not in accordance with the original intention of the lawmaker.
3. Tax consultants provide guidance or ways to conduct tax avoidance, with the condition that the company must maintain strict confidentiality.

Thin Capitalization

Jumailah, V (2020), thin capitalization is a tax avoidance practice where the company has a debt structure that is more dominant than capital. By utilizing loan interest expense that can reduce taxable income, this strategy is considered to provide transfer pricing for the company.

Transfer Pricing

Transfer pricing involves the strategic adjustment of prices to minimize profits, creating the illusion that the company is incurring losses, thereby evading taxes or duties in a particular jurisdiction. Transfer pricing is defined as a price manipulation that makes it appear as if the company is losing money so as to reduce the tax that should be imposed in a country.

Executive Character

Executive character describes how a company leader acts when faced with risk. The decisions taken reflect the level of courage or prudence of the executive in facing these risks. In a company, leaders who are in high positions, such as executives or managers, play an important role in directing and managing company operations to achieve predetermined goals. Each leader has a different style and character in carrying out their responsibilities (Sari, R et al, 2022).

Profitability

Profitability ratio is a measurement tool that shows how well a company is able to generate profits. This ratio is very important for investors because it reflects the company's performance. If the profitability ratio is high, it means that the company is well managed and able to achieve large profits. In addition, this ratio is also used to assess the effectiveness of management in managing sales or investments to generate profits within a certain period of time (Napitupulu, R, 2019).

H1: The Effect of Thin Capitalization on Tax Avoidance.

Thin capitalization is a strategy employed by companies that involves financing their business operations primarily through debt rather than equity in their capital structure. This approach is often favored by firms seeking to minimize their tax liabilities, as they tend to prefer paying interest on loans instead of taxes. The interest on these loans qualifies as a deductible expense, thereby reducing the overall tax burden on the company (Salwah, S & Herianti, E, 2019).

H2: The Effect of Transfer Pricing on Tax Avoidance.

Transfer Pricing is reflected if there are elements, among others, there is an exchange (purchase/sale), has a different entity, and is in the same group in this case. Transfer pricing is a price manipulation activity for tangible and intangible goods and services that is usually carried out by related parties to reduce the level of tax burden that must be paid in order to create an advantage in terms of taxation for the company. The special relationship owned by the related party is very important in conducting transfer pricing to calculate the amount of income and costs charged to calculate taxable income (Sianturi, I & Sanulika, A, 2023).

H3: The Influence of Executive Traits on Tax Evasion.

In carrying out their obligations as leaders of companies, executives have two characters, namely risk taker and risk averse characters. Executives who have a risk taker character are executives who have bold advantages in making business decisions. Meanwhile, executives who have risk averse characters are executives who are not brave in making business decisions (Suprianto, E & Aqida, U, 2020).

H4: Profitability Moderates the Thin Capitalization on Tax Avoidance.

A thin capitalization situation occurs when company managers apply for loans to investors in an amount that exceeds the company's capital. This condition can cause the company to be burdened with significant debt, so that high interest costs suppress net income (Murdiansyah, I et al, 2020). In the context of tax avoidance, companies may deliberately take advantage of this situation to reduce tax liabilities, because interest expense from debt can be deducted as a cost in tax calculations. Thus, the taxable profit becomes smaller, which directly lowers the amount of tax that must be paid. This strategy is often part of an aggressive tax management effort, despite the risk of triggering scrutiny from tax authorities.

H5: Profitability Moderates the Transfer Pricing on Tax Avoidance.

Transfer pricing can be a tool that managers use to regulate the allocation of profits between entities within a corporate group, which is often associated with this conflict of interest. Managers may set transfer prices that favor certain entities within the group to achieve targets that benefit their position, even though this is not always in line with the long-term interests of company owners (Anjarningsih, D & Duke, D, 2024). By utilizing transfer pricing to adjust profits in accordance with personal goals, managers can reduce the company's tax liability in the short term but this can have a negative impact on the company's profitability in the long term. If profits are transferred to entities that do not contribute substantially to the company's operations or growth, the company's ability to generate sustainable profits will be impaired (Maulana, Y., & Euis, E, 2023). Therefore, while transfer pricing may provide momentary tax advantages, its misuse risks lowering profitability and damaging the overall financial health of the company. Company owners must ensure that transfer pricing policies are

properly managed to support long-term goals of profitability and financial stability.

H6: Profitability Moderates the Executive Character on Tax Avoidance.

Risk-taking executives tend to be more aggressive in exploiting loopholes in tax regulations to minimize corporate tax liabilities (Sulistyawati, A & Kiswanto, F, 2024). This strategy, while it may increase net income in the short term, potentially poses long-term risks such as legal sanctions, reputational losses, or stricter scrutiny from tax authorities, which may ultimately negatively affect profitability. In contrast, more prudent executives tend to choose a more conservative approach, avoiding aggressive tax avoidance strategies to maintain company stability and reduce legal risks. This approach may result in higher tax liabilities, but can have a positive impact on long-term profitability as it reduces potential losses from external risks. Thus, executive character is a key factor in determining how tax avoidance strategies are implemented and the extent to which such decisions affect the balance between tax efficiency and sustainable corporate profitability.

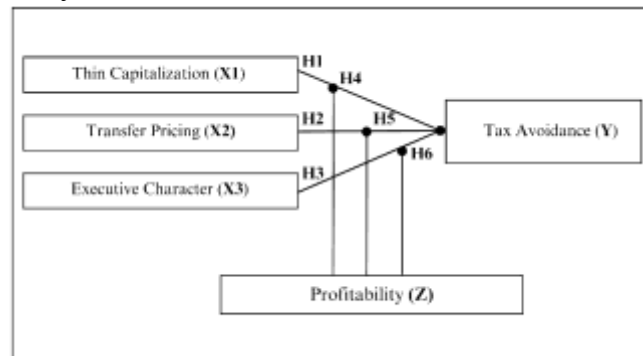


Figure 3. Conceptual Framework

METHODOLOGY

Present clear and succinct descriptions of your research methods, target population and samples, as well as the tools used for data analysis. This study employs a quantitative research approach aimed at exploring the relationships among various variables namely, thin capitalization, transfer pricing, and executive character concerning tax avoidance, with profitability serving as a moderating variable. The focus is on mining companies listed on the Indonesia Stock Exchange during the period from 2021 to 2023.

The data utilized in this research is classified as secondary or indirect data. Specifically, the information is derived from the financial statements of mining companies that are listed on the Indonesia Stock Exchange for the years 2021 to 2023, accessible at www.idx.co.id.

The data collection method used in this research is the documentation method and the literature study method. The documentation method used is to collect, record and review secondary data in the form of financial reports of mining sector companies published by the IDX (Indonesia Stock Exchange). In this study, the literature review was carried out by examining and analyzing a

range of sources, including magazines, journals, books, online articles, and other relevant materials related to the research topic.

Table 1. Operational Variable List

No	Standards	Total
1	Mining sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2021 to 2023.	49
2	Mining sector companies that do not have complete annual reports for the period 2021 to 2023 and have been signed by an independent auditor (suspended).	(1)
3	Mining sector companies that in their annual reports suffered losses during the period 2021 to 2023.	(16)
4	Mining sector companies whose annual reports do not affect the research variables during the period 2021 to 2023.	(1)
Number of samples according to criteria		31
Period (year) of research		3
Number of samples during the research period (year)		93

Source: Data Processed by Researchers, 2025.

The subjects of this study consist of all mining sector companies, amounting to 31 entities, that are listed on the Indonesia Stock Exchange (IDX) during the period from 2021 to 2023, utilizing a purposive sampling method.

Table 2. Operational Variable List

No	Variable	Indicator	Scale
1.	Thin Capitalization (X_1)	$DER = \frac{\text{Total Liabilities}}{\text{Total Equity}}$	Ratio
2.	Transfer Pricing (X_2)	$\text{Transfer Pricing} = \frac{\text{Trade Receivables from related parties}}{\text{Total Receivables}}$	Ratio
3.	Executive Character (X_3)	$\text{Risk} = \frac{\text{EBITDA}}{\text{Total Asset}}$	Ratio
4.	Tax Avoidance (Y)	$\text{CETR} = \frac{\text{Tax Expense}}{\text{Pretax Income}}$	Ratio
5.	Profitability (Z)	$\text{ROA} = \frac{\text{Net Income}}{\text{Total Asset}}$	Ratio

Source: Previous Research.

RESEARCH RESULT

Statistic Descriptive Analysis

Table 3. Statistic Descriptive Analysis

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Thin Capitalization	93	-1.320	8.460	1.42022	1.869666
Transfer Pricing	93	-1.920	4.120	.42226	.827985
Executive Character	93	-1.560	.990	.24806	.412382
Tax Avoidance	93	.000	4.989	.46053	.775489
Profitabilitas	93	.000	.620	.14989	.155902
Valid N (listwise)	93				

Source: Primary Data Processed using SPSS, 2025.

The following are the results of descriptive statistical tests of each research variable.

1. The findings displayed in the table of descriptive statistical analysis indicate that the thin capitalization variable has a minimum value of -1.320 and a maximum value of 8.460. The mean of this variable is calculated to be 1.42022, accompanied by a standard deviation of 1.869666. In this research, thin capitalization is assessed through the Debt to Equity Ratio (DER), which serves as a metric for evaluating the ratio of total debt to total equity of the company.
2. The findings displayed in the table of descriptive statistical analysis indicate that the transfer pricing variable has a minimum value of -1.920 and a maximum value of 4.120. The mean of this variable is calculated to be 0.42226, accompanied by a standard deviation of 0.827985.
3. According to the results presented in the table of descriptive statistical analysis, the executive character variable exhibits a minimum value of -1.560 and a maximum value of 0.990. The mean value for this variable is 0.24806, accompanied by a standard deviation of 0.412382.
4. According to the results presented in the table of descriptive statistical analysis, the tax avoidance variable exhibits a minimum value of 0.000 and a maximum value of 4.989. The mean of this variable is calculated to be 0.46053, accompanied by a standard deviation of 0.775489.
5. According to the results presented in the table of descriptive statistical analysis, the profitability variable exhibits a minimum value of 0.000 and a maximum value of 0.620. The mean profitability is calculated to be 0.14989, accompanied by a standard deviation of 0.155902.

**Classical Assumption Test
 Normality Test**

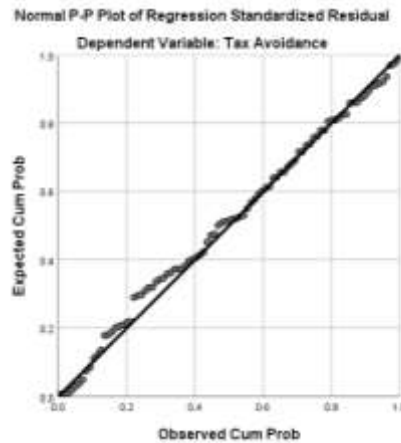


Figure 4. Graph Analysis

Source: Primary Data Processed using SPSS, 2025.

The Normal Probability Plot (Normal P-P Plot) above shows that the data is distributed around the diagonal line and follows its direction. Furthermore, the regression model satisfies the normality assumption, as evidenced by the histogram displaying a normal distribution pattern.

Kolmogorov-Smirnov Test

**Table 4. Kolmogorov-Smirnov Test
 One-Sample Kolmogorov-Smirnov Test**

		Unstandardized Residual
N		93
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	.15856955
Most Extreme Differences	Absolute	.068
	Positive	.031
	Negative	-.068
Test Statistic		.068
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

b. Calculated from data.

c. Lilliefors Significance Correction.

d. This is a lower bound of the true significance.

Source: Primary Data Processed using SPSS, 2025.

According to the table presented above, the Asymp. Sig (2-tailed) value is 0.200. Given that this value exceeds the significance threshold of 0.05 ($0.200 > 0.05$), it can be inferred that the data adheres to a normal distribution. In other words, the normality test is satisfied, allowing the data to be used for further analysis requiring the normality assumption.

Heteroscedasticity Test

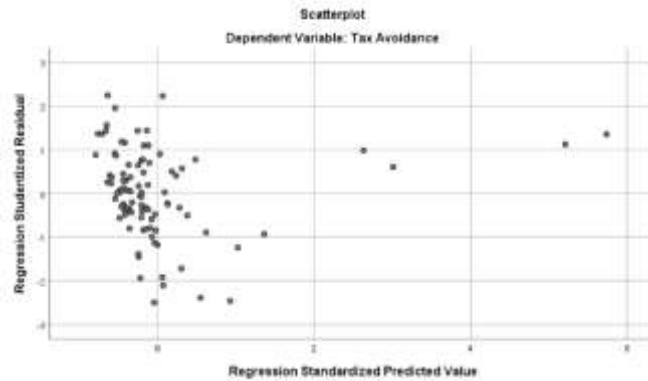


Figure 5. Heteroscedasticity Test

Source: Primary Data Processed using SPSS, 2025.

According to the diagram presented above, the data points appear to be randomly dispersed without establishing a distinct pattern. Furthermore, these points are located both above and below the Y-axis at the value of 0. Consequently, it can be inferred that the regression model does not display heteroscedasticity, indicating that it satisfies the condition of homoscedasticity.

Multicollinearity Test

Table 5. Multicollinearity Test Coefficients^a

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	.772	.033		23.213	.000		
Thin Capitalization	.005	.011	.013	.502	.617	.730	1.369
Transfer Pricing	-.384	.021	-.409	-18.594	.000	.980	1.021
Executive Character	-2.123	.061	-1.129	-34.828	.000	.452	2.212
Profitabilitas	2.466	.166	.496	14.819	.000	.424	2.356

a. Dependent Variable: Tax Avoidance.

Source: Primary Data Processed using SPSS, 2025.

Based on the table above, all variables have a tolerance value greater than 0.10 and a Variance Inflation Factor (VIF) less than 10.00 (tolerance > 0.10 and VIF < 10.00). This indicates that there is no strong linear relationship among the independent variables in the regression model. Therefore, it can be concluded that multicollinearity is not present, meaning the regression model meets the assumption of multicollinearity-free data and is suitable for further analysis.

Autocorrelation Test

Table 6. Autocorrelation Test Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.979 ^a	.958	.956	.162133	1.163

a. Predictors: (Constant), Profitabilitas, Transfer Pricing, Thin Capitalization, Executive Character.

b. Dependent Variable: Tax Avoidance.

Source: Primary Data Processed using SPSS, 2025.

Based on the table above, the Durbin-Watson value is 1.163. Since this value falls within the range of -2 to +2 (-2 < 1.163 < +2), it can be concluded that the regression model does not exhibit autocorrelation issues. In other words, there is no systematic relationship between errors in different periods, meaning the regression model meets the assumption of no autocorrelation and is suitable for further analysis.

Multiple Linear Regression Analysis

Table 7. Multiple Linear Regression Analysis Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.772	.033		23.213	.000
	Thin Capitalization	.005	.011	.013	.502	.617
	Transfer Pricing	-.384	.021	-.409	-18.594	.000
	Executive Character	-2.123	.061	-1.129	-34.828	.000
	Profitabilitas	2.466	.166	.496	14.819	.000

a. Dependent Variable: Tax Avoidance

Source: Primary Data Processed using SPSS, 2025.

$$Y = 0,772 + 0,005X1 - 0,384X2 - 2,123X3 + e..... (1)$$

The multiple linear regression equation above can be interpreted that:

1. The fixed value of 0.772 indicates that when all independent variables (X) are set to zero, the dependent variable representing tax avoidance (Y) will consistently equal 0.772.
2. The regression coefficient for the thin capitalization variable (X1), which is 0.005, suggests that a 1-point rise in thin capitalization will result in a 0.005-point increase in tax avoidance.
3. The regression coefficient for the transfer pricing variable (X2) is -0.384, indicating that a 1-point increase in transfer pricing will result in a decrease of 0.384 points in tax avoidance.

The regression coefficient for the executive character variable (X3), which is -2.123, suggests that a 1-point increase in executive character is associated with a reduction in tax avoidance by 2.123 points, independent of other variables.

Hypothesis Test

Coefficient of Determination (R2) Test

Table 8. Coefficient of Determination (R2) Test

Model Summary^b

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.979 ^a	.958	.956	.162133

a. Predictors: (Constant), Profitabilitas, Transfer Pricing, Thin Capitalization, Executive Character

b. Dependent Variable: Tax Avoidance

Source: Primary data processed using SPSS, 2025.

Based on the table above, the coefficient of determination (Adjusted R²) is 0.956 (95.6%). This value lies between 0 and 1 ($0 < R^2 < 1$), suggesting that the regression model effectively captures the relationship between the variables with a high degree of accuracy. In other words, the independent variables—profitability, transfer pricing, thin capitalization, and executive character—explain 95.6% of the variation in the dependent variable, tax avoidance, while the remaining 4.4% is influenced by other factors not included in this model.

F Statistic Test

Table 9. F Statistic Test

ANOVA^a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	53.014	4	13.254	504.181	.000 ^b
	Residual	2.313	88	.026		
	Total	55.327	92			

a. Dependent Variable: Tax Avoidance.

b. Predictors: (Constant), Profitabilitas, Transfer Pricing, Thin Capitalization, Executive Character.

Source: Primary Data Processed using SPSS, 2025.

Based on the table above, the calculated F-value is 504.181 with a significance level (Sig.) of 0.000. Since this value is smaller than the 0.05 significance threshold ($0.000 < 0.05$), it can be concluded that thin capitalization, transfer pricing, executive character, and profitability have a significant influence on tax avoidance.

Partial Effect (t Test)

Table 10. Partial Effect (t Test) Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.100	.046		23.825	.000
	Thin Capitalization	-.073	.017	-.175	-4.259	.000
	Transfer Pricing	-.412	.038	-.440	-10.791	.000
	Executive Character	-1.460	.077	-.776	-18.978	.000

a. Dependent Variable: Tax Avoidance.

Source: Primary Data Processed using SPSS, 2025.

Based on the table above, the results of the partial effect test (t test) for each variable include:

1. The thin capitalization variable has a significance of 0.000 or less than 0.05. These results indicate that thin capitalization affects tax avoidance so that hypothesis H1 is accepted.
2. The transfer pricing variable has a significance of 0.000 or less than 0.05. These results indicate that transfer pricing affects tax avoidance so that hypothesis H2 is accepted.
3. The executive character variable has a significance of 0.000 or less than 0.05. These results indicate that thin capitalization affects tax avoidance so that hypothesis H3 is accepted.

Moderated Regression Analysis (MRA) Analysis

Table 11. Moderated Regression Analysis (MRA) Analysis Coefficients^a

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.885	.038		23.246	.000
	Thin Capitalization	-.008	.012	-.017	-.619	.538
	Transfer Pricing	-.356	.027	-.380	-13.385	.000
	Executive Character	-2.140	.056	-1.138	-38.136	.000
	Profitabilitas	.779	.426	.157	1.827	.071
	Thin Capitalization* Profitabilitas	-.029	.156	-.006	-.188	.851

Transfer Pricing* Profitabilitas	-.015	.317	-.002	-.046	.964
Executive Character* Profitabilitas	1.959	.382	.360	5.149	.000

a. Dependent Variable: Tax Avoidance

Source: Primary Data Processed using SPSS, 2025.

$$Y = 0,885 - 0,008X1 - 0,356X2 - 2,140X3 + 0,779 - 0,029X1Z - 0,015X2Z + 1,959X3Z + \epsilon \dots \dots \dots (2)$$

Based on the table above, the results of the Moderated Regression Analysis (MRA) analysis for each variable include:

1. The thin capitalization variable with profitability has a significance of 0.851 or more than 0.05. These results indicate that profitability as a moderating variable is not able to moderate thin capitalization on tax avoidance so that hypothesis H4 is rejected.
2. Transfer pricing variable with profitability has a significance of 0.964 or more than 0.05. These results indicate that profitability as a moderating variable is not able to moderate transfer pricing on tax avoidance so that hypothesis H5 is rejected.
3. Executive character variable with profitability has a significance of 0.000 or less than 0.05. These results indicate that profitability as a moderating variable is able to moderate executive character on tax avoidance so that hypothesis H6 is accepted.

DISCUSSION

The test results on the thin capitalization variable measured using the Debt to Equity Ratio (DER), show a significance value of 0.000 which is smaller than 0.05 (0.000 < 0.05). Because this value is below the significance limit, it can be concluded that thin capitalization has an influence on tax avoidance. Thus, the first hypothesis (H1) is accepted, which means that thin capitalization has an effect on tax avoidance.

H1: The Effect of Thin Capitalization on Tax Avoidance.

The test result on transfer pricing variable measured based on the ratio of related receivables to trade receivables shows a significance value of 0.000. This value is smaller than the significance limit of 0.05 (0.000 < 0.05) which means that the test results are significant. Thus, it can be concluded that transfer pricing affects tax avoidance. This also proves that the second hypothesis (H2) is accepted with the statement that transfer pricing has an impact on tax avoidance.

H2: The Effect of Transfer Pricing on Tax Avoidance.

The results of the research on the executive character variable as measured by risk show a significance value of 0.000 less than the significant limit of 0.05 (0.000 < 0.05). Since this value is below the set limit, it can be concluded that executive character has an influence on tax avoidance. In other words, the greater the executive character that tends to take risks, the higher the possibility of the company doing tax avoidance. This proves that the third hypothesis (H3) is

accepted with the statement that executive character has an impact on tax avoidance.

H3: The Effect of Executive Character on Tax Avoidance.

The findings from the study examining the connection between thin capitalization and tax avoidance, with profitability represented as a moderating variable through the Debt to Equity Ratio (DER), revealed a significance value of 0.851. Since this value exceeds the threshold of 0.05 ($0.851 > 0.05$), it can be inferred that thin capitalization does not influence tax avoidance when profitability is considered as a moderating factor. Consequently, the fourth hypothesis (H4) is rejected, indicating that thin capitalization does not affect tax avoidance in the presence of profitability as a moderating variable.

H4: Profitability Moderates the Thin Capitalization on Tax Avoidance.

The findings from the study examining the connection between transfer pricing and tax avoidance, with profitability serving as a moderating variable, indicate a significance value of 0.964. Given that this value exceeds 0.05 ($0.964 > 0.05$), it can be inferred that transfer pricing does not influence tax avoidance when moderated by profitability. Consequently, the fifth hypothesis (H5) is rejected, affirming that transfer pricing does not affect tax avoidance in the context of profitability as a moderating factor.

H5: Profitability Moderates the Transfer Pricing on Tax Avoidance.

The findings from the study examining the connection between executive character and tax avoidance, with profitability serving as a moderating variable represented by risk, indicate a significance value of 0.000. Because the value of 0.000 is smaller than 0.05 ($0.000 < 0.05$), it can be concluded that executive character affects tax avoidance when moderated by profitability. Consequently, the sixth hypothesis (H6) is affirmed, indicating that executive character influences tax avoidance, with profitability serving as a moderating variable.

H6: Profitability Influences Executive Behavior Regarding Tax Avoidance.

CONCLUSIONS AND RECOMMENDATIONS

The findings indicate that thin capitalization, transfer pricing, and executive character play a role in tax avoidance. However, profitability does not serve as a moderating variable that influences the relationship between thin capitalization and transfer pricing on tax avoidance. In contrast, executive character does impact tax avoidance, with profitability acting as a moderating variable in this context.

ADVANCED RESEARCH

This study focuses on mining companies listed on the Indonesia Stock Exchange during 2021-2023 with a sample of 31 companies, so it cannot be used as a reference for other sectors and makes limitations in conducting normality tests.

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